



EN

THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX

of the Commission Implementing Decision on the Annual Action Programme in favour of the Republic of Azerbaijan for 2022

Action Document for Investment and Resilience Facility for Azerbaijan

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plan in the sense of Article 23(2) of NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title OPSYS Basic Act	Investment and Resilience Facility for Azerbaijan Annual Action Plan in favour of the Republic of Azerbaijan for 2022 OPSYS business reference: ACT-61287 ABAC Commitment level 1 number: JAD. 1018594 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	No
3. Zone benefiting from the action	The action shall be carried out in the Republic of Azerbaijan
4. Programming document	Multi-annual Indicative Programming Document (MIP) 2021-2027 for Azerbaijan ¹
5. Link with relevant MIP(s) objectives/expected results	Sub-objective 1: MIP priority area 1: Resilient, sustainable and integrated economies Specific objective 2: To support economic reforms to improve business and investment climate in order to promote private sector and micro, small and medium-sized enterprises' development, create decent green jobs, further diversify and formalise the economy and make it more environmentally sustainable / Expected result: (a) Business and investment climate improved to strengthen competitiveness of private sector and micro, small and medium-sized enterprises; (b) green businesses supported: green/less carbon intensive and resource efficient high quality green jobs, circularity of production and consumption promoted Sub-objective 2:

¹Multi-annual Indicative Programme (2021-2027) for Azerbaijan, [https://ec.europa.eu/transparency/documents-register/detail?ref=C\(2022\)450&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=C(2022)450&lang=en)

	<p>MIP priority area 3: Environmental and climate resilience</p> <p>Specific objective 2: To preserve the economic natural asset base by greening regional rural development as well as agricultural and food production / Expected result: (c) Climate adaptation / disaster risk prevention solutions promoted and introduced across all sectors of economy (in particular in the water management sector, agriculture, forestry, urban planning, critical infrastructure etc.); (d) Enhanced resilience to the impact of disasters and climate change.</p> <p>Sub-objective 3:</p> <p>MIP priority area 5 - Resilient, gender-equal, fair and inclusive societies</p> <p>Specific objective 2: To accelerate progress towards gender equality and women's and girls' empowerment / Expected result (b): Economic, social rights and empowerment of women through equal participation strengthened.</p>
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	<p>DAC 250 – Business and other services</p> <p>DAC 410 – General Environment Protection</p>
7. Sustainable Development Goals (SDGs)	<p>Main SDG:</p> <p>SDG 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p> <p>Other significant SDGs and where appropriate, targets:</p> <p>SDG 5 – Achieve gender equality and empower all women and girls</p> <p>SDG 10 - Reduce inequality within and among countries</p> <p>SDG 11 – Make cities and human settlements inclusive, safe, resilient and sustainable</p> <p>SDG 13 – Take urgent action to combat climate change and its impacts</p> <p>SDG 15 – Life on Land</p>
8 a) DAC code(s)	<p>DAC 151 – Government & Civil Society-general (18.5%)</p> <p>15170 – Women's rights organisations and movements, and government institutions</p> <p>DAC 250 – Business and other services (59%)</p> <p>25030 – Business development services</p> <p>DAC 410 – General Environment Protection (11.5%)</p> <p>41020 – Biosphere protection</p> <p>DAC 430 – Other Multisector (11%)</p> <p>43040 – Rural development</p>
8 b) Main Delivery Channel	40000 – Multilateral Organisations (International Organisations and/or Member State Donor Agencies)
9. Targets	<p><input type="checkbox"/> Migration</p> <p><input checked="" type="checkbox"/> Climate</p> <p><input checked="" type="checkbox"/> Social inclusion and Human Development</p> <p><input checked="" type="checkbox"/> Gender</p> <p><input checked="" type="checkbox"/> Biodiversity</p> <p><input type="checkbox"/> Human Rights, Democracy and Governance</p>

10. Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	11. Internal markers and Tags	Policy objectives	Not targeted	Significant objective
Digitalisation		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tags		YES	NO	/
digital connectivity		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital governance		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital entrepreneurship		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital skills/literacy		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital services		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
<u>Connectivity</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Tags	YES	NO	/	
digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>		
energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		
transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>		
health	<input type="checkbox"/>	<input checked="" type="checkbox"/>		
education and research	<input type="checkbox"/>	<input checked="" type="checkbox"/>		
Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	Reduction of Inequalities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	Budget line: 14 02 01 11 – Eastern Neighbourhood Total estimated cost: EUR 13 500 000.00 Total amount of EU budget contribution EUR 13 500 000.00			
MANAGEMENT AND IMPLEMENTATION				
13. Implementation modalities (type of financing and management mode)	Project Modality Indirect management with the entity(ies) to be selected in accordance with the criteria set out in section 4.3.1			

1.2. Summary of the Action

This Action seeks to support Azerbaijan in the development of a green, sustainable and inclusive economy, and it will promote a resilient, gender-equal and community-driven society in the country. It aims to advance the implementation of the Economic and Investment Plan for the Eastern Partnership², including its flagship projects and beyond, to enhance sustainable investments capacity, particularly in green and digital sectors, and contribute to the overall socio-economic recovery of the country. It also contributes to enhancing local-level capacity to prepare and respond to climate-related risks and challenges and supporting local businesses to apply innovative solutions for a green transition. The activities under this Action underline the importance to promote climate adaptation and, where possible, climate mitigation measures that can be implemented by local actors and authorities in some of the areas particularly exposed to climate change in order to improve their livelihood, economic opportunities and reduce a rural gap. In this regard, the Action seeks to address various factors, such as the lingering presence of landmines and other explosive ordinance, environmental degradation of ecosystems or a lack of an effective framework to respond to climate change impact at the local level, which altogether slow socio-economic growth, deepen regional disparities and contribute to an increasing internal mobility of the population from rural to urban areas. Finally, the Action aims at reducing gender inequalities by enhancing the institutional capacity in gender-responsible governance, including gender-responsive budgeting, as well as promoting economic and social empowerment of women and girls.

The three specific objectives of the Action are designed to contribute to the policy objectives covered under the Multi-annual Indicative Programme (MIP) 2021-2027, and are in line with the policy targets of the Joint Staff Working Document: Structured Consultation on the future of the Eastern Partnership³ as well as with the policy objectives outlined in the Joint Communication on the future of the Eastern Partnership⁴. The activities, in view of the specific objectives of this Action, will be designed to contribute to the achievement of Sustainable Development Goals (SDGs), notably SDG 8 on decent work and economic growth, but also SDG 5 on gender equality, SGD 10 on reducing inequalities within the country, SGD 11 on sustainable cities and communities, SDG 13 on climate action as well as SDG 15 on promoting quality of life on land.

² [JOIN\(2020\) 7 final](#).

³ Idem.

⁴ [SWD\(2021\) 186 final](#).

2. RATIONALE

2.1. Context

The framework for European Union (EU)-Azerbaijan relations is embodied in the Partnership and Cooperation Agreement (PCA)⁵ in force since 1999. Negotiations of a new and upgraded agreement, designed to strengthen policy dialogue in key sectors and cooperation in a wide range of areas, are ongoing. The EU-Azerbaijan Partnership Priorities⁶ were extended for the period of 2021-2024, continuing to provide strategic guidance to the bilateral cooperation. In addition, the EU's cooperation with Azerbaijan is underpinned by the priorities of the European Commission and those of the post-2020 Eastern Partnership (EaP) policy as presented in the March 2020 Joint Communication⁷ and July 2021 Joint Staff Working Document⁸, as well as the December 2021 Joint Declaration of the Eastern Partnership Summit⁹. This is also in line with the Economic and Investment Plan (EIP)¹⁰ for the EaP, which supports the investment pillar presented in the Joint Staff Working Document of 2021. In July 2022, the EU and Azerbaijan concluded the Memorandum of Understanding on a Strategic Partnership in the field of Energy¹¹. The new Memorandum of Understanding will allow for enhanced strategic cooperation in the energy field, notably working jointly to increase deliveries of Azeri natural gas to the EU, but also accelerating the deployment of renewables and addressing methane emissions; these steps will both increase security of supply and help achieve our climate goals.

In Azerbaijan, the EU promotes and supports a wide range of reforms, notably on good governance and the rule of law, social development and inclusiveness as well as economic diversification, inclusive and sustainable growth, green and digital transition. This Action is therefore designed to contribute to the implementation of the EaP priorities and facilitate the investment opportunities under the EIP to bring tangible benefits to the people in Azerbaijan. In line with the Multi-annual Indicative Programming for Azerbaijan for the period of 2021-2027 (MIP), this Action will most notably contribute to the policy objectives of resilient, sustainable and integrated economies (priority area 1), environmental and climate resilience (priority area 3) as well as resilient, gender-equal, fair and inclusive societies (priority area 5). It is also aligned to support the efforts of Azerbaijan in fulfilling the country's obligations to achieve the goals of the 2030 Agenda for Sustainable Development, the implementation of the 2015 Paris Agreement on Climate Change, the Sendai Framework for Disaster Risk Reduction, and commitments to address issues of climate change, environmental degradation, poverty and inequality as well as promote sustainable and equitable economic growth. The principles of the EU Green Deal¹² strategies are fully taken into account. The engagement with the local independent civil society represents an important part of the EU's cooperation in the country.

The EU remains the largest donor to the civil society in Azerbaijan and continues channelling support through the regional Civil Society Facility programme. In addition, the EU is the leading donor providing assistance on demining in the country, following the ceasefire agreement in 2020 and the cessation of the hostilities.

⁵ [Official Journal L 246 , 17/09/1999](#)

⁶ <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ%3AL%3A2018%3A265%3A0018%3A0022%3AEN%3APDF>

⁷ [JOIN\(2020\) 7 final](#)

⁸ SWD(2021) 186 final

⁹ Joint Declaration of the Eastern Partnership Summit (Brussels, 15 December 2021)

¹⁰ Annex 1 SWD(2021) 186 final

¹¹ Press release, 18 July 2022, https://ec.europa.eu/commission/presscorner/detail/en/IP_22_4550

¹² COM(2019) 640 final

Azerbaijan is an upper-middle-income country, rich in natural resources, but with persisting significant governance challenges related to safeguarding checks and balances in the political system, strengthening democracy and the rule of law, ensuring respect for human rights and fundamental freedoms, as well as preserving space for civil society and independent media.

As seen in the past, the dependency on oil and gas exports make Azerbaijan's economy vulnerable to fluctuations in global energy prices. The Government has demonstrated significant efforts to diversify its economy and strengthen non-oil sectors; however, more needs to be done to improve the country's overall competitiveness and the unequal distribution of economic wealth among the society and reduce disparities between the country's urban centres and its rural areas.

Azerbaijan is the most water stressed country in the region with a comparably low agricultural productivity and resource efficiency, high soil degradation, an increasing population growth, and in part poor environmental indicators. Climate change predictions for the country as detailed in other parts of this document are likely to increase the pressure on the country's natural resources. In February 2021, the government of Azerbaijan outlined its new strategic development agenda of "Azerbaijan 2030: National Priorities for Socio-economic Development"¹³, which includes a clean environment and green growth as well as the fight against climate change as one of its priorities, this way making it in many ways convergent with the objectives of this Action. To achieve the goals of this development agenda, the Government has been drafting a Socio-economic Development Strategy for 2022-2026, that also includes an Action Plan for its implementation. Greening of the corporate sector overall and including the micro, small and medium enterprises (MSMEs) sector will be critical in this context, notably by adopting resource-efficiency and cleaner production but also enhancing their climate change resilience through adaptation. The Government of Azerbaijan is moreover committed to support the global trend towards sustainable food systems and has subscribed to supporting the European Union's Farm to Fork Strategy¹⁴ in this context.

Although, the economy of Azerbaijan, following the global COVID-19 crisis, has been demonstrating signs of recovery, the secondary effects of Russia's war of aggression against Ukraine and the consequent international sanctions against Russia may have an impact on Azerbaijan's economy. The agricultural sector and rural population will bear the brunt of this effect, which will have a negative impact on their viability, investment potential and resilience in the face of climate change.¹⁵

The complementarity with other ongoing and planned regional and bilateral interventions in the policy areas covered by this Action will be consistently ensured at the activity level to explore possible synergies between the assistance provided by the EU and other international donors.

2.2. Problem Analysis

Short problem analysis

Sub-objective 1 - Economic and Investment Plan Facility

Azerbaijan has set ambitious development goals under the Azerbaijan 2030 agenda, which aims to promote inclusiveness, sustainability, greening and digitalisation of the economy. This ambitious reform agenda is in line with the approach of "building back better and greener" after the COVID-19 crisis, and corresponds to the SDGs and Paris Agreement. Nonetheless, achieving these goals will require sizable investments from

¹³ Order of the President of the Republic of Azerbaijan on approval of "Azerbaijan 2030: National Priorities for Socio-Economic Development", 2 February, 2021, <https://en.president.az/articles/50474>

¹⁴ [COM/2020/381 final](#)

¹⁵ Policy Analysis – Economic implications for Europe and Central Asia (ECA) from the sanctions on Russia - 2022

public and private, domestic and international sources and dedicated technical assistance and know-how at multiple levels.

A lack of structural financing mechanisms and blending practices, limited conducive and enabling conditions for foreign investment have so far limited the presence of International Financial Institutions (IFIs) in the country and created obstacles for financing of capital-intensive projects. In addition, the sector is impacted by a low level of institutional capacity, slow decision-making mechanisms, limited inter-institutional coordination within the government and a lack of transparency, in particular, in setting priorities and incentives for investment projects. The investment climate overall, notwithstanding some recent improvement, continues to be affected by fiscal space largely dependent on oil revenues as well as challenges related to the rule of law, transparency of public procurement, and access to finance. Nonetheless, the country's non-oil sector could present an attractive market for European investors, especially in view of the potential that the Economic and Investment Plan can generate in Azerbaijan.

There is an overall lack of comprehensive knowledge about the green economy, circular economy, digitalisation, innovation both from a conceptual and technical perspective among different levels of government and private sector of the country. Terms and concepts like green finance, green investments, green public procurement are also new for a large number of the staff in the government. Furthermore, the government is interested in introducing the "green cities" and "green villages" concepts and prioritises green and alternative energy projects in the country. There is a need for substantial know-how development as well as a functioning legal and regulatory framework to attract foreign investors and prepare the ground for maturing green and sustainable investment projects. Certain steps have already been taken in this regard. For example, Azerbaijan has been developing comprehensive incentives and a new legal and regulatory framework for renewable energy projects, including two new laws on the use of renewable energy sources and the production of electricity that have been prepared with the technical support provided by the EU. There is also a need to explore further on potential investments which could be linked with climate adaptation and mitigation efforts.

Carrying out a comprehensive mine action to reduce the social, economic and environmental impact of mines and explosive remnants, in line with international standards and in partnership with the Azerbaijan National Agency for Mine Action (ANAMA) and other relevant stakeholders with experience and proven track record in this field, is an important step in restoring livelihood capacity as well as facilitating investments and sustainable developments across the country. This can also play as a contributing factor to potential confidence building measures in the lead-up to peace-building. While an important work as part of mine action is already being carried out in Azerbaijan, including with the significant support by the EU, needs in this field remain significant.

In addition, a high contamination of certain areas with mines and other types of explosive hazards has been a major factor deterring internally displaced people (IDPs) from returning and settling in rural areas. By addressing this issue, the Action, to the extent possible, will contribute to minimising barriers to a safe and sustainable reintegration of displaced people and a safe use of land.

Sub-objective 2 – Community-based Climate Change Resilience and Green Transition

Azerbaijan's physical and geographical characteristics make it a highly sensitive country to the adverse effects of climate change, such as flooding, drought, heat stress, forest fires and their consequences. Based on the recent assessment under the United Nations Development Programme's (UNDP) National Adaptation Plan (NAP) Support Project for adaptation planning and implementation in Azerbaijan, Climate change vulnerability index in Azerbaijan on the climate change exposure, vulnerabilities related to climate change are particularly strong in the southern regions of Azerbaijan. Typical climate change induced

challenges in these areas include decreased winter precipitation and snow-melt water, a reduction in both surface and groundwater, increased drought periods with subsequent loss of agriculture productivity and increased pasture degradation, increased instance and scale of forest fires, destruction of forest cover due to flooding and mudslides, and shifts in forested areas to higher altitude zones. Without climate adaptation and mitigation measures, long-term impact may cause a reduction in agricultural yields, economic decline of rural areas and may lead or further accelerate the internal migration within the communities towards urban areas. Some available data suggests that 67,865 people were prompted to leave their home areas between 2009 and 2014 due to natural disasters.¹⁶ At the same time, the assessment of linkages and the impact of environmental degradation and climate change on internal mobility and livelihood in the context of Azerbaijan remains limited to better understand how (i) the impact of various natural disasters and slow-onset processes on communities in different regions of the country; (ii) ways in which internal mobility (such as rural–urban migration) is linked to environmental factors; and (iii) climate adaptation and mitigation actions that can be implemented both by local actors and authorities in areas particularly exposed to natural disasters and environmental degradation.¹⁷

Natural disasters originating from hydro meteorological hazards have regularly impacted a high percentage of the territory of the country. Azerbaijan’s NC3 reports an increase in temperatures across the country of 1.3°C in 2010, relative to the average annual temperatures observed in the period 1961–1990. Temperatures in Azerbaijan are projected to rise at a faster rate than the global average, with potential warming of 4.7°C by the 2090s over the 1986–2005 baseline, under the highest emissions pathway (RCP8.5). Maximum and minimum temperatures are projected to rise faster than the global average, which will amplify the impacts on human health, livelihoods, and ecosystems.¹⁸ According to the Climate Change Vulnerability Index in Azerbaijan conducted by the Ministry of Ecology and Natural Resources, in the past 10 years (by 2021) the number of days with strong rain increased six times, flood events increase by 18.5 times, drought periods increased by 35%, frequency of strong winds over 35m/s l events by 3.5 times, water discharge of Kura river upstream 27%. Where it is considered relevant, the activities on climate change adaptation planning will be widened to incorporate elements related to building disaster resilient practices at the community level. At the same time, the Action acknowledges that climate change adaptation and mitigation addresses mainly weather- and climate-related hazards whereas measures that are linked to disaster risk reduction focus on addressing potential and existing risks from all hazards. In addition, the Action recognises the connection between biodiversity and climate change adaptation, as climate change directly affects ecosystem dynamics and the quality of habitats. Biodiversity also plays an important role in regulating the climate of ecosystems, thus contributing significantly to climate change adaptation and possible mitigation measures. According to the observations conducted by the experts of the State Hydromet Service, the Ministry of Ecology and Natural Resources, and the Ministry of Agriculture damages to livelihood caused by the environmental factors force the population to migrate often in the flood-prone areas of Greater Caucasus (Gabala, Sheki, Balaken, Zagatala, Oguz) and Lesser Caucasus (Tovuz, Shamkir, Gadabay, Dashkasan). The experts also predict that severe climate change impacts, especially heat waves and fresh water supply problems, in the Central Aran economic region will lead to a new wave of internal economic migration unless appropriate climate mitigation and adaptation action is taken.

At the same time, Azerbaijan continues its gradual progress towards global strategic priorities, including the development of a sustainable, green and diversified economy. The country joined the international

¹⁶ IOM Migration, Environment, and Climate Change Policy Brief, Retrieved from https://publications.iom.int/system/files/pdf/policy_brief_vol2_issue4_en.pdf

¹⁷ Ibid.

¹⁸ EU4Climate Azerbaijan 2022 factsheet, https://eu4climate.eu/wp-content/uploads/2021/08/small_EU4Climate-AZERBAIJAN_2021.pdf

efforts to mitigate the adverse effects of global climate impact by ratifying the UN Framework Convention on Climate Change in 1995, the Kyoto Protocol to the Convention in 2000, and the Paris Agreement in 2016. The Azerbaijan 2030 strategy includes objectives to ensure high quality ecological environment and green growth, in particular the introduction of clean technologies, encouragement of the use of clean energy sources, efficient use of water resources, and recycling and remediation of contaminated areas. The Government has been developing a Strategy of Socio-Economic Development in 2021-2025, in accordance with the Azerbaijan 2030 strategy, that will define the main directions and plans aimed at nurturing a clean environment and national green growth. Since 2010, the greenhouse gas emissions of Azerbaijan grew and reached 61 million tonnes of carbon dioxide equivalent in 2016. The government has prepared a new Nationally Determined Contribution (NDC), which foresees a reduction of emissions by 2030 of at least 35% and towards 40% in 2050 compared to 1990 levels and development of a National Energy Efficiency Action Plan (NEEAP). The two new laws “On the Use of Renewable Energy Sources in the Production of Electricity” and “On the Efficient Use of Energy Resources and Energy Efficiency” have been approved, providing the basis for efficient use of renewables, and regulating relations between the public and private sector in the field of energy.

The government is currently preparing a national climate adaptation plan, which is to be finalised in 2024. However, the existing policy framework and the level of institutional and technical capacity to promote climate adaptation at the sub-national and community levels remain limited. In addition, there is a lack of awareness on the sustainable use of natural resources, access to data, financial resources and sufficient know-how dedicated to mainstreaming climate change adaptation considerations into national, regional and, in particular local planning, budgeting and regulatory frameworks, including sectoral planning. As the national adaptation plan is in the process of being developed, it is essential to ensure bottom-up linkages and the promotion of the collective action at the local level, including through targeted support to MSMEs in the rural communities in order to strengthen their role as the backbone of economic activity and source of employment in the regions.

An effective long-term adaptation to climate change requires a multi-stakeholder engagement. In particular, promoting partnerships with the business sector can contribute to equitable green growth at the local level. In addition, MSMEs are also well suited to reach communities particularly vulnerable to environmental degradation. In Azerbaijan, the majority of the population in rural areas relies on local micro and small businesses, notably in the agricultural sector, for their livelihoods and direct income. It is therefore important to engage this segment of the economy to make it not only more resilient to the future climate impact, but also more prone to apply low-cost and sustainable greening solutions to their business models as well as to rigorously assess risks climate change poses to their operations and suppliers and recognise their own role in the adaptation process. For example, by installing environmentally friendly irrigation systems and introducing new plant varieties, farmers can produce more crops, ensuring food security to the nearby community even when faced with the impacts of climate change.

A sound climate adaptation planning is needed, both at the national and local levels, to incentivize the private sector to embrace and invest on long-term business continuity, instead of focusing on short-sighted climate-proofing of operations and treating resilience as an added cost. In addition, the economic potential of small and medium enterprises (SMEs) in Azerbaijan remains underdeveloped and is concentrated in relatively low value-added activities (trade and repair of vehicles, transportation and storage, accommodation and restaurants). In 2020 there were 316,500 registered micro, small and medium (MSM) entrepreneurs, some 16.7% more than in 2019¹⁹, accounting for 26.3% of non-oil exports. MSMEs have

¹⁹ <https://www.stat.gov.az/source/entrepreneurship/?lang=en>

been significantly impacted by the measures taken to curb the COVID-19 pandemic. According to the results of 2020 reported by the State Statistical Committee, the value added created by MSM entrepreneurship subjects decreased by 1.2 % in nominal terms compared to the previous year and amounted to 10.9 billion manats, which makes 16.7 % of the value added created on the country's economy. There is limited knowledge about green economy, circular economy, innovation both from a conceptual and technical perspective, among SMEs in the country. Although Azerbaijan has introduced legislation to green economic development, it needs to be complemented by specific initiatives targeted at SMEs.

In this context, support to MSMEs under the sub-objective 2 will promote the transition to a climate-neutral economy by building the private sector's capacity on mainstreaming green growth policies, focusing on small and medium enterprise support, and engaging with the community on climate mitigation and the thematic adaptation area of reforestation.

All activities under the sub-objective 2 will be designed in complementarity with the ongoing EU regional programmes such as Supporting Decarbonisation and Climate Adaptation in the Eastern Partnership (EU4Climate) and Covenant of Mayors East. It is key to note that in order to avoid potential overlapping, the Action will focus on primarily promoting local-level measures related to climate adaptation and mitigation, whereas the aforementioned regional programmes are being implemented at the national or district levels. Ultimately, it will be key to ensure synergies among the programmes to achieve the best possible outcome under the defined objectives.

Sub-objective 3 – Gender equality and empowerment of women

Despite the existing comprehensive legislation, which is supposed to ensure equal access to economic opportunities for women and men in Azerbaijan, in practice it is not properly adhered to, therefore women continue to fall behind men on several important labour indicators.²⁰ According to national statistics, the number of women among entrepreneurs is significantly lower than the number of men, 21.7% and 78.3%, respectively.²¹ In 2019 the gender pay gap as difference in monthly earnings was 42%.²² This shows, that despite of various measures and programmes undertaken to ensure gender equality in Azerbaijan, it is important to further support bridging the gap between legislation and implementation. In addition, gender-responsive budgeting (GRB) that can assist in bridging the gap between the commitment to gender equality outcomes and the actual implementation of the required measures on a multiyear basis, is not sufficiently implemented across the government's institutions. According to Asian Development Bank (ADB) research, there is currently no budget-wide (whole-of-government) reflection of gender equality in the budget proposal submitted to Parliament.²³

Gender-based occupational stereotyping still prevails, including age and gender-based discrimination. This pushes women away from better-paid private sector jobs or limits them to informal and unstable employment. Although gender-based discrimination in hiring is illegal, women are still restricted from working in certain occupations. Poor qualifications and limited competitive skills of women in the labour market remain acute and not sufficiently addressed in the government's policies. In addition, unpaid domestic labour and care for family members are considered the main barriers for engaging in income-generating work for women in Azerbaijan. There is a general lack of public awareness on gender equality and women's rights, therefore conducting awareness-raising measures, engaging society in dialogue and

²⁰ Business Climate Report for Azerbaijan, 2021, https://www.eeas.europa.eu/node/413305_en?s=217

²¹ <https://www.stat.gov.az/source/gender/?lang=en>

²² United Nations Economic Commission for Europe, 'UNECE Statistical Database: Gender pay gap as difference in monthly earnings'

²³ Rapid Response Support for Strategic Reforms – Overview of Gender Responsiveness of the Public Financial Management System: Technical Assistance Consultant's Report | Asian Development Bank (adb.org)

targeting youth are important measures to address gender inequality in the country. Nevertheless, the capacity of social infrastructure service providers that offer social housing, education and training services to vulnerable women as well as the legal and regulatory framework needs to be improved.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the Action.

The Action will be implemented in close cooperation and coordination with the government, local authorities and municipalities as well as local communities and IFIs. Various private actors, such as local producers, vulnerable to climate impacts, SMEs, women entrepreneurs and other relevant non-state actors will be covered by this Action. A complete overview of how the activities under this Action will address directly and/or indirectly the listed state and non-state stakeholders, including the issues related to their institutional and organisational capacity as well as their roles, will be outlined at the project design phase.

The key stakeholders in the public sector include, but are not limited to:

The *Ministry of Economy* is the central executive body responsible for creating a favourable environment for economic development and growth, encouraging investment activity, developing entrepreneurship and industry, management of government assets and privatization.

The *Azerbaijan Business Development Fund (ABDF) under the Ministry of Economy* is to support the development of non-oil sectors entrepreneurship in Azerbaijan providing financial support for the development.

The *Small and Medium-sized Enterprises Development Agency under the Ministry of Economy of the Republic of Azerbaijan (KOBIA)* is a public legal entity that supports the development of micro, small and medium businesses in Azerbaijan and provides support and a range of services to entrepreneurs; it also coordinates and regulates public services in this area.

The *Ministry of Ecology and Natural Resources* is the central executive authority implementing the state policy on protection of the environment and the sustainable use of natural resources of the country. The Ministry is the key government actor in implementing the national adaptation and mitigation measures.

The *State Commission on Climate Change* is an umbrella entity which coordinates all climate change-related activities in Azerbaijan.

The *Ministry of Agriculture* is a central executive body in charge of regulation of the economic activity in the agricultural sector of the country with a purpose of increasing the sector's production capacity.

The *State Committee for Family, Women and Children's Issues* is a central executive body implementing and regulating the state policy on family, women and children's issues.

The *Ministry of Labour and Social Protection of Population* is the central executive body responsible for regulating the labour markets and ensuring social protection of the vulnerable population.

The *Mine Action Agency of the Republic of Azerbaijan (ANAMA)* coordinates, manages, and monitors mine action in the country.

Close work with *municipalities* will be key in advancing their capacity to identify, design, and implement innovative solutions that will respond to the needs of the communities facing climate challenges. For the purpose of this Action, the *community* is defined as a group of people in *rayons* (districts) linked by social ties and engage in joint action within small geographical location or setting. The community may include water users, bee-keepers associations, villages, and other groups.

Sub-objective 3 mainly targets vulnerable women who face multiple forms of discrimination. This groups includes elderly women, women as a single parent, women living with disabilities, rural women, survivors

of gender-based violence and others. Vulnerabilities are caused by, and result in, discrimination, limited access to resources and power, violence, sexism and other negative consequences.

2.3. Lessons Learned

Sub-objective 1 – Economic and Investment Plan facility

The activities under this component are designed based on the lessons learnt from the past implementation of financing instruments and the EU-supported investment projects can be summarised as following:

- The designing and maturing of investment projects with the government may take time due to a slow processes/approvals and implementation.
- Pre- and post-due diligence is an effective instrument to ensure that available financing reaches the most relevant economic operators in the context of the EIP and the Flagship projects as well as the proper assessment of investments.
- In a highly centralized country-context, a multi-stakeholder coordination is essential to narrow down investment priorities as well as identify, design and mature potential investment projects.

Sub-objective 2 – Community-based climate change resilience and green transition

The activities under this component are designed based on the lessons learnt from implementation of similar actions in the past, supported by the EU or other international donors.

- Climate change adaptation measures are integrated and interlinked in several sectors. For example, the water sector is not a standalone area but is rather interrelated with agriculture, energy production, and other sectors.
- Implementing activities related to climate change adaptation requires sufficient political will on the local level and strong coordination between regions and central government. In this regard, a certain focus should be also given to a solid advocacy campaign emphasizing the importance of climate change adaptation, to boost the partnership among the stakeholders.
- Considering the volatile nature of climate change adaptation, several relevant negative scenarios should be considered while preparing adaptation planning.
- The critical factor for the effective implementation and sustainability of the results is community ownership, therefore, the emphasis on demand-driven climate adaptation planning is essential.
- Only a few fragmented activities have been implemented around climate change on the community level. It is essential to involve communities with a focus on the most vulnerable groups, including women, youth, and the elderly, from the onset of the implementation. In this regard, it will be essential to conduct vulnerability assessments on the ground once the selected communities are identified.
- The COVID-19 pandemic has evolved into an economic slowdown and has particularly adverse consequences on MSMEs. The asymmetrical impact of the pandemic is also most visible from its gender dimension. The women-led enterprises reported a more severe impact of the COVID-19 crisis on the business operations and lower capabilities to adapt the businesses to new business models and requirements caused by COVID-19 protocols. Although it is hard to estimate the scope, the MSMEs need the support to withstand current challenges and become more resilient.
- During the implementation of the “Marine Ecosystems Protection” project in 2013-2018, there was a situation when vulnerable communities in coastal lines used pouching for their living. Additionally, their cattle used protected areas for grazing, even though some of their land spots

stayed idle due to water problems. Families could not solve this problem since it also required support from the local executive authorities. The collective efforts of villagers supported by the local and sectoral authorities may yield good results, ensuring that pouching and grazing on the protected territories are stopped while ensuring livelihoods for the vulnerable population.

Sub-objective 3 – Gender equality and empowerment of women

The EU continues to implement the Gender Action Plan (GAP) III²⁴. The main lesson learnt from previous and ongoing projects are summarised as follows:

- Projects aimed at women empowerment and gender equality may have limited impact at the national level as they usually focus on changes at the grassroots level with limited activities aiming at decision-makers. The institutional level interventions that would help to change legislation, procedures, or systems and improve women's situation in the longer term are needed.
- The project's experience in addressing gender issues via men's inclusion contributes to efforts to change stereotypes, overcome cultural barriers, and change the balance of power between genders.
- Lack of segregated data limits effective progress monitoring as well as the development of evidence-based and gender-responsive strategies and interventions.
- Experience has proven that the complex and collaborative approach of various stakeholders is beneficial in addressing challenges in the area of women empowerment and gender equality. Multi-stakeholder consultations and effective referral mechanisms requiring strong coordination and cooperation positively contribute to building a strong problem-solving mechanism.
- Strong networking, access to information, services, and resources, professional growth, participation in women platforms and networks, can motivate women to be more socially active and join efforts for lobbying and advocating at the community and regional level.

²⁴ [JOIN\(2020\) 17 final](#)

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this Action is to contribute to a green, sustainable and inclusive economy and to a resilient, gender-equal and community-driven society in Azerbaijan.

The Specifics Objectives (Outcomes) of this Action are to:

1. Advance the implementation of the Economic and Investment Plan including in and for the green and digital economies and enhance enabling conditions for investments and local business development.
2. Improve climate change adaptation and response of local communities and MSMEs in selected areas.
3. Improve gender-responsive governance and the economic and social empowerment of women and girls.

The Outputs to be delivered by this Action contributing to the corresponding Specific Objectives (Outcomes) are:

Contributing to Outcome 1 (or Specific Objective 1):

- 1.1. Improved capacities of relevant government institutions and mechanisms for coordination and the overall implementation of the Economic and Investment Plan (EIP) at national level.
- 1.2. Enhanced capacity of public and private sector actors to design and implement investment projects under EIP, in line with international best practices and the EU requirements.
- 1.3. Increased capacity of and provided targeted assistance to relevant stakeholders involved in mine action.

Contributing to Outcome 2 (or Specific Objective 2):

- 2.1. Increased capacity of local communities to develop, coordinate and monitor climate change adaptation plans.
- 2.2. Piloted innovative climate adaptation and disaster –resilient solutions in targeted communities.
- 2.3. Strengthened MSMEs' capacity to adapt to climate change and disaster resilience challenges and to promote resource efficiency solutions and adopt climate-resilient practices.

Contributing to Outcome 3 (or Specific Objective 3):

- 3.1. Increased capacity of targeted vulnerable women and girls to better exercise their rights and increased women's access to the economic opportunities.
- 3.2. Enhanced capacity of the targeted governmental bodies to conduct Gender-based Assessment of budget of public institutions.
- 3.3. Improved social infrastructure and services for vulnerable women in selected locations.

3.2. Indicative Activities

Activities related to Output 1.1:

- Provide support to horizontal coordination of activities and multi-stakeholder communication to assist the government in advancing the implementation of the EIP.

- Provide training and technical assistance to improve the operational capacity of the Azerbaijan Business Development Fund for enhanced coordination of the implementation of investment projects in the country.

Activities related to Output 1.2:

- Mobilise expertise in identifying, maturing and promoting potential investment projects, including conduct pre- and post-investment feasibility studies and assessment (legal, financial, commercial, technical, and environmental, etc.).
- Support relevant government agencies to advance their work with private and public actors to develop viable and bankable projects.

Activities related to Output 1.3:

- Provide technical assistance, expertise and capacity building to relevant stakeholders in line with international standards to support mine action and related activities.

Activities related to Output 2.1:

- Conduct vulnerability assessment and select the most impacted communities for capacity building programmes on the community engagement in climate adaptation and disaster resilient practices
- Identify and deploy innovative climate adaptation solutions and disaster resilient practices that respond to the needs of the communities identified.
- Design a training manual for the community-based climate change adaptation and disaster resilient planning and proposal design.

Activities related to Output 2.2:

- Conduct capacity building in the communities on the climate change adaptation and disaster resilience and project design.
- Incentivise and support the best community-based climate adaptation plans and monitor the process.

Activities related to Output 2.3:

- Identify and publicly appreciate already ongoing initiatives that implement green solutions and deliver local socio-economic benefits in the specific development context of Azerbaijan.
- Promote their further growth and/or replication through a provision of dedicated funding for scaling up of the operations, new partnerships.
- Build additional capacity in green and sustainable thematic areas in part based on the above by developing training programmes for MSMEs to foster knowledge on SDG concepts and green strategies.
- Design the criteria for greening additional MSMEs and start-ups operating in different sectors of the economy of the target communities.
- Incentivise and support best green MSME and start-ups projects in the target communities as well as monitor their implementation.

Activities related to Output 3.1:

- Capacity building (trainings, mentorships and peer-to-peer) of women in the field of sustainable business development.
- Awareness raising of families on breaking stereotypes.

- Support development and sustainability of women-led businesses.
- Support public and private partnerships for reskilling their workforces (especially women and women in vulnerable groups) and help to adapt employees' skills and roles.

Activities related to Output 3.2:

- Capacity building of state agencies in gender-responsible governance, including gender-responsive budgeting and gender-sensitive services.
- Support/accompany the implementation of Gender-based Assessment of budget of selected public institutions.

Activities related to Output 3.3:

- Capacity building of social infrastructure, offering social housing, education and training services to vulnerable women, including improvement of regulatory and legal framework.
- Improve capacities of social infrastructure service providers, to ensure provision of gender-sensitive services.
- Support reintegration activities of women and children in social infrastructure.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

Outcomes of the Strategic Environmental Assessment (SEA) screening: The SEA screening concluded that no further action was required. No sector policy or supporting programme is proposed and correspondingly no Strategic Environmental Assessment (SEA) is foreseen.

Outcomes of the Environmental Impact Assessment (EIA) screening

The EIA screening classified the Action as Category B (not requiring an EIA, but for which environment aspects will be addressed during design). In particular, the implementation of the Output 1 (support to the implementation of the Economic and Investment Plan - EIP) will ensure that EIA screening is conducted at an early stage of any EIP project preparation and proper EIA studies are conducted as and when needed based on the applicable regulatory framework in Azerbaijan.

Outcome of the Climate Risk Assessment (CRA) screening - The CRA screening concluded that this Action is no or low risk (no need for further assessment). However, since some activities foreseen under Output 1 (support to EIP implementation) may be vulnerable to the changing climatic conditions in Azerbaijan under even the mid-range scenario (RCP4.5/SSP2). Therefore, Output 1 will ensure that at least simple climate risk screenings are conducted at an early stage of any EIP project preparation to ensure that the proposed activities are not significantly vulnerable to the changing climatic conditions

EIA and CRA processes will be conducted as and when needed during design of the specific projects to be supported under this Action.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this Action is labelled as G1. This suggests that gender equality is a significant objective of this Action and will be mainstreamed throughout sub-objectives 1 and 2. At the same time, gender equality and empowerment of women and girls will be the principal

objective for sub-objective 3, this component should therefore be labelled G2. Gender equality is a core value of the EU and a universally recognised human right, as well as an imperative to well-being, economic growth, prosperity, good governance, peace and security. All people, in all their diversity, should be free to live their chosen life, thrive socially and economically, participate and take a lead as equals. This Action will take into account the EU’s new Action Plan on Gender Equality and Women’s Empowerment in EU External Action 2020–2025 (GAP III).

Human Rights

All activities included in this Action will be designed and implemented in accordance with the principles of rights-based approach, good governance, democracy and human rights, gender equality, environmental sustainability and protection, climate resilience and the inclusion of socially or economically deprived groups. Deliverables will be measured against gender, equity and human rights.

Disability

As per OECD Disability DAC codes identified in section 1.1, this Action is labelled as D1. This implies that disability is a significant objective. People with disabilities (PWDs) will be included in respective activities under the Action, including to the community level climate change adaptation actions, support to women entrepreneurs and MSMEs.

Democracy

The Action will enhance civic participation and engagement at community level and accountability at local and national levels for the actions taken to fight climate change impacts. It will also contribute to the improvement of transparency and inclusiveness, equal opportunities, and reduced gender based discrimination in accessing knowledge and skills, financial resources and investment, and economic operations.

Conflict sensitivity, peace and resilience

The Action adopts conflict sensitivity and a social cohesion approach to promote trust, citizen-state compact and socioeconomic space to maximise economic opportunities, particularly for poor and disadvantaged communities. The Action will explore the broader context and mitigate potential negative impacts on the social, economic and environment pillars of sustainability, in line with the “do-no-harm” principles. All components of the Action will contribute to concrete “benefits of peace” for the broader society which are important to support more comprehensive conflict transformation and long-term socio-economic development. The Action, supporting multi-sector investment schemes in public and private sector and improve opportunities and livelihoods of IDPs.

Disaster Risk Reduction

Building resilience and preventing disaster are among the activities of the Action. Investing green and resilient economy, and adapting to climate change and building resilience of communities are key issues of thematic funding in Azerbaijan.

3.4. Risks and Assumptions

Category	Risks	Likelihood	Impact	Mitigating measures
1 - External environment	Lack of interest and capacity to implement the EIP in Azerbaijan.	Medium	High	Continuous policy dialogue. Involvement of the concerned stakeholders at all stages of the project preparation.
5 - Communication and information	Lack of awareness of the EIP and its priorities as well as a lack of knowledge on various EU financial instruments.	Medium	Medium	Dissemination of targeted information and intensive awareness raising and capacity building activities. Organising high level working group on investments jointly with the government and the European IFIs.
3 - People and the Organisation	Low capacity and lack of expertise in the field of climate change adaptation, esp. at the local level	High	Medium	Intensive training, awareness-raising, and advocacy campaigns for the communities and private sector representatives are envisaged.
3 - People and the organisation	Lack of interest of the government stakeholders to implement gender responsive budgeting.	Medium	Medium	Mainstreaming gender equality systematically throughout programmes and activities. Continuous policy dialogue with relevant government partners on the importance of the gender-responsible governance, including gender-responsive budgeting.
3 - People and the organisation	Discriminatory gender norms and stereotypes prevent women from participating in and benefiting from opportunities.	Medium	High	Intensive awareness-raising and advocacy campaigns are envisaged to tackle gender stereotypes and discriminatory practices against women and girls and mobilizing civil society organisations (CSOs) as well as private sector and media.

External Assumptions

- The government is ready to engage with the EU and IFIs on maturing potential investment projects and rolling out the EIP implementation; it is willing to improve its regulatory and legislative framework allowing for conditions conducive to investments.
- The investment climate remains stable and the government is ready to take up sovereign loans and meet international procurement procedures.
- Mine action and related activities are carried out in an inclusive manner and based on international best practices and standards.
- The preparations of the National Climate Adaptation Plan is progressing and the Plan is eventually adopted. The government is committed to its implementation.

- Local communities and municipalities are ready to participate in processes related to climate change planning and adaptation. Local businesses are interested in exploring the potential of applying green solutions to their business models.
- There is willingness to conduct a government-wide gender-based assessment, develop and pursue gender-based budgeting and commit to recommendations and findings.

3.5. Intervention Logic

This Action builds on an evidence-based analysis and will focus on needs identified in cooperation with key authorities and relevant non-state stakeholders. The Action will be implemented based on lessons learned, not only in Azerbaijan but also more broadly at regional (South Caucasus and the Eastern Partnership) level. The Action will seek to create synergies with other initiatives in Azerbaijan and regionally, such as the Covenant of Mayors East, Mayors for Economic Growth, EU4Climate, EU4Business, EU4Environment and EU4Gender Equality.

In addition, the Action will be implemented through a mix of interventions ranging from policy guidance, development and dialogue to technical assistance, capacity-building and service delivery. Activities will be implemented in close cooperation with national and local authorities ensuring a complete alignment with national priorities and a strong ownership of the target groups towards this Action. The ownership of the Action by authorities and their commitment to implement the recommendations issued in the context of the Action are assumptions for the success of the Action.

More specifically, with the assumption that the government remains committed to jointly engage in achieving objectives under the sub-objective 1, the planned activities will contribute to enabling conditions, advanced coordination and the mobilisation of necessary expertise to provide support to identifying, prioritising and maturing potential projects in line with the EIP. This will include support to conducting pre- and post-investment feasibility studies and assessments as well as support to relevant governmental agencies (e.g. SME Agency) in their work with private and public actors in improving the investment climate in the country. Attracting European top-notch know-how, as an accompanying modality to investments, will be also key. The Action is also based on the assumption that support to processes and activities related to mine action, in line with international standards, is necessary to enable conditions for rolling out investments, boosting economic growth, recovery and development across the country. Clearing explosive hazards throughout the contaminated areas will contribute to creating conditions for a safe return of IDPs and ensuring a safe access for the population to natural resources and rebuilding devastated livelihoods.

Activities related to achieving objectives under the sub-objective 2 are based on the assumption that in order to promote a robust adaptation and preparedness to address climate-related risks and challenges it is crucial to involve and build capacity at the local level. The planned activities under this component are designed to reinforce the national climate adaptation framework, which is currently being prepared, by creating bottom-up linkages with the community level, where the impacts of climate change are felt. The activities will also focus on providing expertise and creating incentives for the local business to adapt their business models and benefit from the green transition. This comes with an assumption that MSMEs are oftentimes, and particularly in the case of Azerbaijan, the most direct contributors to economic livelihoods at local level, providing a strong labour force, access to markets, and steady incomes. It is therefore essential to climate-proof the private sector to benefit the business-owners, employees, households and others in the extended value chain. For an effective and sustainable adaptation to climate processes it is equally important to integrate local businesses in the process of addressing climate vulnerabilities and making them aware of their role and impact at community level. Taking into account that an integrated climate adaptation

framework is still at the nascent phase in Azerbaijan, it may be difficult to identify local businesses that can implement viable climate adaptation solutions and/or green economy initiatives in a local socio-economic setting of specific target areas that are particularly vulnerable to climate change. As a mitigating measure, the Action may consider to expand the geographical scope for incentivising MSMEs in this regard.

Finally, the activities under the sub-objective 3 are designed based on the assumption that improving socio-economic conditions for women and girls as well as achieving overarching gender-equality, requires strong capacity across the government and decision-making levels to pursue gender-responsible governance. This concerns gender-responsive budgeting and provision of gender-sensitive services based on a comprehensive gender-based assessment as well as recommendation on how to effectively incorporate a gender perspective at all levels budgetary processes, including restructuring revenues and expenditures.

3.6. Indicative Logical Framework Matrix

Results	Results chain: Main expected results	Indicators	Baselines (values and years)	Targets (values and years - 2027)	Sources of data	Assumptions
Impact	To contribute to a green, sustainable and inclusive economy and to a resilient, gender-equal and community-driven society in Azerbaijan.	1 Global Competitiveness Index	1 Baseline to be defined at the inception phase	1 Target to be confirmed during inception phase	1 Global Competitiveness Report, World Economic Forum	<i>Not applicable</i>
		2 Notre Damme Global Adaptation Initiative (ND-GAIN) Country Index	2 Baseline to be defined at the inception phase	2 Target to be confirmed during inception phase	2 Notre Damme Global Adaptation Initiative (ND-GAIN) Country Index rankings	
		3 Global Gender Gap Index rankings	3 Baseline to be defined at the inception phase	3 Target to be confirmed during inception phase	3 Global Gender Gap Index rankings	
Outcome 1	Advanced implementation of the Economic and Investment Plan including in and for the green and digital economies and enhanced enabling conditions for investments	1.1 Number of projects implemented under EIP (disaggregated by sectors including green and digital)	1.1 Baseline to be defined at the inception phase	1.1 Target to be confirmed during inception phase	1.1 Government of Azerbaijan (GoA) & Action reports	GoA and the private sector are ready to rollout EIP implementation

	and local business development.	1.2 Volume of foreign investment inflow under EIP (EUR) disaggregated by green investments/others	1.2 Baseline to be defined at the inception phase	1.2 Target to be confirmed during inception phase	1.1 GoA & Action reports	Stable political and geopolitical environment Pandemic does not significantly disrupt value chains
		1.3 Number of m ² of mined areas cleared	1.3 Baseline of 2024 to be defined at the inception phase	1.3 Target to be confirmed during inception phase	1.3 GoA and Action reports	
Outcome 2	Improved climate change adaptation and response of local communities and MSMEs in selected areas.	2.1 Number of local communities with climate change adaptation plans developed and under implementation with the support of the EU	2.1 Weak	2.1 Strong	2.1 EU and other donor organisations' reports	National Adaptation Plan is in place and the GoA committed to its implementation
		2.2 Number of Micro, Small and Medium Enterprises (MSMEs) applying Sustainable Consumption and Production practices with EU support	2.1 Baseline to be defined at the inception phase	2.1 Target to be confirmed during inception phase	2.1 EU and other donor organisations' reports	
Outcome 3	Improved gender-responsive governance and the economic and social empowerment of women and girls.	3.1 Number of relevant actors (private sector companies, ministries, etc.) influenced to adopt processes to improve women's economic empowerment/to remove	3.1 Baseline to be defined at the inception phase	3.1 Target to be confirmed during inception phase	3.1 GoA reports	High political commitment to improve space for operation of gender equality and economic

		barriers to market access for women in a given sector				empowerment of women
		3.2 Number of established women-led businesses/start-ups with the support of the EU, by sector	3.2 Baseline to be defined at the inception phase	3.2 Target to be confirmed during inception phase	3.2 GoA reports	
Output 1 related to Outcome 1	1.1 Improved capacities of relevant government institutions and mechanisms for coordination and the overall implementation of the Economic and Investment Plan (EIP) at national level.	1.1.1 Status of the national level coordination mechanisms	1.1.1 The national level coordination mechanisms is not in place	1.1.1 The national level coordination mechanisms is in place and operational	1.1.1 Action reports & periodic reports by coordination body	GoA remains committed to the specific objectives and takes all necessary measures to rollout EIP in the country
Output 2 related to Outcome 1	1.2 Enhanced capacity of public and private sector actors to design and implement investment projects under EIP, in line with international best practices and the EU requirements.	1.2.1 Number of persons with improved capacities to design and implement investment projects that meet EU requirements, by public/private actors, sex.	1.2.1 0	1.2.1 Target to be confirmed during inception phase	1.2.1 Action reports	Government and private sector actors are interested in the implementation of EIP Availability of appropriate capacity in the private sector to absorb and apply new approaches Incentive mechanism and loan

						products address the needs of the beneficiaries of potential investment projects
Output 3 related to Outcome 1	1.3 Increased capacity of and provided targeted assistance to relevant stakeholders involved in mine action.	1.3.1 Number of staff from relevant institutions with increased capacities required to de-mine, by institution, skills, sex	1.3.1 Baseline to be defined at the inception phase	1.3.1 Target to be confirmed during inception phase	1.3.1 GoA and Action reports	The government is willing and ready to invest in demined areas and use them for their intended purposes
Output 1 related to Outcome 2	2.1 Increased capacity of local communities to develop, coordinate and monitor climate change adaptation and disaster resilience plans	2.1.1 Number of people with increased capacities to develop, coordinate and monitor climate change adaptation and disaster resilience plans with the support of the EU, by sex, age, migration/IDP and disability status	2.1.1 0	2.1.1 30	2.1.1 Action reports	Communities are interested in efficiency measures and are willing to apply Capacity and willingness of Municipalities to participate and contribute to climate change planning and adaptation
Output 2 related to Outcome 2	2.2 Piloted innovative climate adaptation and disaster-resilient solutions in targeted communities	2.2.1 Number of pilot innovative projects to address climate change adaptation and disaster resilience implemented with the support of the EU, by region	2.2.1 0	2. 2.1 Target to be confirmed during inception phase	2.2.1 Action reports	MSMEs are interested in greening their activities

Output 3 related to Outcome 2	2.3 Strengthened MSMEs' capacity to adapt to climate change and disaster resilience challenges and to promote resource efficiency solutions and adopt climate-resilient practices.	2.3.1 Number of MSMEs with improved capacity in Sustainable Consumption and Production practices, by sex of ownership, sector including green/digital and IDP status				
Output 1 related to Outcome 3	3.1 Increased capacity of targeted vulnerable women and girls to better exercise their rights and increased women's access to the economic opportunities.	3.1.1 Number women entrepreneurs with improved capacities, by age	3.1.1 0	3.1.1 1	3.1.1 Action reports	Public and private sector actors are interested in cooperation
		3.1.2 Number of established public-private partnerships for developing women entrepreneurship	3.1.4 0	3.1.4 5	3.1.4 Action reports	Women-led businesses have capacity and are ready to sustain their businesses Women are willing to claim their rights once they acquire the necessary knowledge/ understanding of their rights/entitlements
Output 2 related to Outcome 3	3.2 Enhanced capacity of the targeted governmental bodies to conduct Gender-based Assessment of budget of public institutions.	3.2.1 Number of institutions with increased capacities to conduct or analyse gender-sensitive	3.2.1 0	3.2.1 1	3.2.1 Action reports	GoA is interested and willing to conduct gender-based assessment

		assessments of public institutions' budgets				
		3.2.2 Number of conducted Gender-based Assessments of public institutions' budgets	3.2.2 0	3.2.2 3	3.2.2 Action reports	
Output 3 related to Outcome 3	3.3 Improved social infrastructure and services for vulnerable women in selected locations.	3.3.1 Number of adequate, easily accessible and protected social infrastructure service providers	3.3.1 0	3.3.1 1	3.2.1 Action reports	<p>Social infrastructure service providers to vulnerable women are interested in capacity development activities</p> <p>Legal and regulatory framework for provision of the social infrastructure services is in place</p>

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this Action, it is envisaged to conclude a financing agreement with the partner country.

4.2. Indicative Implementation Period

The indicative operational implementation period of this Action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this financing Decision and the relevant contracts and agreements.

4.3. Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures²⁵.

4.3.1. Indirect Management with pillar-assessed entity²⁶

4.3.1.1. Indirect Management with pillar-assessed entity

A part of this Action may be implemented in indirect management with pillar-assessed entities, which will be selected by the Commission's services using the following criteria in view of the outputs 1.1 and 1.2 contributing to the Specific Objective 1 of the Action:

- Experience and expertise relevant to the provision of services to facilitate investment climate;
- Experience and expertise related to identifying, designing and implementing investment projects;
- In-depth understanding of the situation in Azerbaijan, including in view of developing the non-oil and financial sectors
- A proven track record of working on green, sustainable and digital investment products;
- Operational capacity of the organisation (organisational, human and management);

The implementation by these entities under Specific Objective 1 entails supporting public and private sector actors to build technical capacity to design and implement investment projects under the EIP

4.3.1.2. Indirect Management with pillar-assessed entity

A part of this Action may be implemented in indirect management with pillar-assessed entities, which will be selected by the Commission's services using the following criteria:

In view of the output 1.3 contributing to the Specific Objective 1 of the Action:

- Experience and expertise in the field of mine action and related activities;
- Experience of working in conflict-sensitive environments
- Operational capacity of the organisation (organisational, human and management);

The implementation by these entities under Specific Objective 1 entails enhancing conducive conditions for economic growth and investments through mine action measures.

²⁵ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

²⁶ The signature of a contribution agreement with the chosen entity is subject to the completion of the necessary pillar assessment

4.3.1.3. Indirect Management with pillar-assessed entity

A part of this Action may be implemented in indirect management with a pillar-assessed entity, which will be selected by the Commission's services using the following criteria:

- Operational capacity of the organisation (organisational, human and management);
- Experience and expertise in the field in mainstreaming climate change processes, notably on climate adaptation;
- In-depth knowledge of the specific context and government's policies in Azerbaijan in the field of building climate resilience.

The implementation by this entity under Specific Objective 2 - Community-based climate change resilience and green transition - entails building capacity of communities to cost-efficiently and sustainably prepare and manage challenges related to climate change.

4.3.1.4. Indirect Management with pillar-assessed entity

A part of this Action may be implemented in indirect management with a pillar-assessed entity, which will be selected by the Commission's services using the following criteria:

- Operational capacity of the organisation (organisational, human and management);
- Experience and expertise in the field in mainstreaming gender equality;
- In-depth knowledge of the specific context and government's policies in Azerbaijan in the field of gender equality and empowerment of women.

The implementation by this entity under Specific Objective 3 - Gender equality and empowerment of women - entails activities related to promoting gender equality, inclusiveness and equitability of economic growth.

4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realization of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution, in currency identified in EUR
Implementation modalities – cf. section 4.4		
Objective 1 composed of	7 300 000.00	N.A.
Indirect management with pillar-assessed entity cf. section 4.3.1.1 and 4.3.1.2		
Objective 2 composed of	3 500 000.00	N.A.
Indirect management with pillar-assessed entity cf. section 4.3.1.3		
Objective 3 composed of	2 500 000.00	N.A.
Indirect management with pillar-assessed entity cf. section 4.3.1.4		
Evaluation – cf. section 5.2 Audit – cf. section 5.3	200 000.00	N.A.
Communication and visibility	N.A.	N.A.
Contingencies	N.A.	N.A.
Totals	13 500 000.00	

4.6. Organisational Set-up and Responsibilities

The EU Delegation to Azerbaijan will be responsible for the management of the programme and will monitor its overall implementation. It will also be the focal point for any communication with the contractors or the beneficiary institutions.

The potential implementing partners will ensure coordination with relevant public and private partners.

At the level of the individual projects funded under this Action, specific Steering Committees (SC) will be set up to review progress periodically and provide a strategic guidance and oversight during the implementation.

At the Action level, the Commission and the partner country will regularly review progress made in the overall implementation through a Programme Steering Committee (PSC) which meets once a year. Apart from steering the overall process the PSC also aggregates information about progress in implementation which will be made available to relevant stakeholders. The focal point will also be appointed for any communication with the contractors and the beneficiaries.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the Action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the Action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the Action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference the logframe matrix.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

- Baselines and targets which are not yet available will be provided at contracting level (at the latest at the end of the inception phase) by the selected implementing partners;
- Implementing partners will collect, record and track key data with particular focus on assessment against the indicators identified in the logical framework and that are disaggregated at least by sex, age, and even further when applicable indicators that are disaggregated at least by sex, age, and even further when applicable, to inform on progress towards planned results' achievement;
- At the level of the individual projects funded under this Action, specific Steering Committees (SC) will be convened by the implementing partners involving the EU Delegation and other relevant stakeholders. The SC will meet regularly to review progress on the basis of periodic reports.
- SDGs indicators and, if applicable, and jointly agreed indicators as, for instance, those from the EU Results Framework, should be taken into account.

The reports shall be laid out in such a way as to allow monitoring of the resources envisaged and employed and of the budget details of the Action.

5.2. Evaluation

Having regard to the importance of the Action, an ex-post evaluation will be carried out for this Action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision).

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the implementing partner at least 60 days in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this Action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to fulfil the requirements laid down in the document Communicating and raising EU visibility: Guidance for external actions²⁷, as adopted in July 2022, in line with the communication and visibility requirements in force under current programming period. These requirements would involve, among others, the obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement, as appropriate, on all communication materials related to the actions concerned.

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and delegation agreements.

For the purpose of enhancing the visibility of the EU and its contribution to this Action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds. Effectiveness of communication activities on awareness about the Action and its objectives as well as on EU funding of the Action should be measured.

Implementing partners shall keep the Commission and concerned EU Delegation fully informed of the planning and implementation of specific visibility and communication activities before work starts. Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall Action to the relevant monitoring committees.

²⁷ https://international-partnerships.ec.europa.eu/knowledge-hub/communicating-and-raising-eu-visibility-guidance-external-actions_en